

TRANSMITTAL SLIP

5 Nov 81

TO:

Bob Gates

ROOM NO.

7D60

BUILDING

Hqs.

REMARKS:

I urge that you read this
cable right away.

cc:

Hans Heymann
Maurice Ernst

FROM:

Harry Rowen, C/NIC

ROOM NO.

7E62

BUILDING

Hqs.

FORM NO. 241
FEB 55REPLACES FORM 36-8
WHICH MAY BE USED.

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State Dept. review completed

Department of State

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ACTION SS-25

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FM AMEMBASSY WARSAW
TO SECSTATE WASHDC IMMEDIATE 3841

S E C R E T SECTION 1 OF 3 WARSAW 18838

EXDIS

STADIS////////////////

FOR ASSISTANT SECRETARY EAGLEBURGER FROM AMBASSADORS
MEISSNER AND MEEHANE.O. 12865: GDS 11/4/87 (MEEHAN, FRANCIS J.) OR-M
TAGS: EFIN, EGIN, RL
SUBJECT: AID TO POLAND

1. (S - ENTIRE TEXT.)

2. SUMMARY. SUMMARY. IN OUR JUDGEMENT THE US GOVERNMENT NEEDS TO MAKE A DECISION BY MID-NOVEMBER WHETHER IT WILL COMMIT MAJOR NEW COMMERCIAL EXPORT CREDITS TO POLAND IN 1982, I.E. LEVELY SIMILAR TO THE 700 MILLION DOLLARS IN COMMERCIAL AGRICULTURAL CREDITS EXTENDED LAST YEAR. THIS MESSAGE REVIEWS THE PRESENT POLITICAL SITUATION IN POLAND, WHY THE MID-NOVEMBER TIMING IS IMPORTANT, THE SIZE OF THE ECONOMIC PROBLEM AND SUGGESTS THE CONDITIONS UNDER WHICH CREDITS SHOULD BE EXTENDED. IT DOES NOT REPEAT NOT ADDRESS THE ISSUE OF HUMANITARIAN FOOD AID TO POLAND, WHICH SHOULD BE CONTINUED WHETHER THERE IS A POSITIVE OR NEGATIVE DECISION ON EXTENDING A LARGE VOLUME OF COMMERCIAL EXPORT CREDITS. SUCH FOOD AID IS A SHORT TERM EFFORT. LARGE VOLUME EXPORT CREDITS ARE A MEDIUM TERM FINANCIAL COMMITMENT TO THE POLISH ECONOMY. SUCH A COMMITMENT, WHILE HAVING AN ECONOMIC-COMMERCIAL RATIONALE, IS IN ESSENCE A POLITICAL DECISION TO LEND US ECONOMIC RESOURCES TO SUPPORT THE POLITICAL CHANGES NOW TAKING PLACE IN POLAND. THE USG DOES NOT HAVE ANY INTEREST IN HELPING OUT COMMUNIST GOVERNMENTS IN DISTRESS. THE AID WE RECOMMEND IS NOT TO HELP THE POLISH GOVERNMENT BUT TO MAXIMIZE RUSSIAN LOSS AND U.S. GAIN IN THE POLISH SITUATION. END SUMMARY.

POLITICAL SITUATION

3. OVER THE LAST SIXTEEN MONTHS WE HAVE WITNESSED A NON-VIOLENT POLITICAL REVOLUTION IN POLAND. THIS REVOLUTION HAS TAKEN PLACE IN THE MIDST OF AN ECONOMIC CRISIS BROUGHT ON BY THE DISASTROUS REGIME ECONOMIC POLICIES OF THE 1970'S AND AGGRAVATED BY THE EXTREMELY BAD 1980 HARVEST. THE VEHICLE FOR THE REVOLUTION HAS BEEN THE FORMATION OF FREE LABOR UNIONS IN BOTH INDUSTRY AND AGRICULTURE. IN THIS CONTEXT, MANY ECONOMIC ISSUES ARE SIMULTANEOUSLY KEY POLITICAL ISSUES -- ECONOMIC DECENTRALIZATION, WAGE LEVELS, THE PRICE SYSTEM, COAL PRODUCTION, ETC.

4. INHERENT IN THESE ECONOMIC ISSUES, IN FACT, IS THE STRUGGLE FOR POLITICAL POWER IN POLAND. THE REGIME RESISTED FROM THE OUTSET THE RISE OF SOLIDARITY AND THE INTRODUCTION OF DEMOCRATIC PRACTICES IN SOCIETY. ONLY WIDESPREAD NATIONAL SUPPORT, ITS TRULY MASS BASIS, HAS ENABLED SOLIDARITY TO ACHIEVE THE STATUS OF A FREE DEMOCRATIC LABOR UNION. THE UNION HAS WON A VOICE IN THE RUNNING OF NON-MILITARY PLANTS; IT HAS ESTABLISHED ITS OWN PRESS; IT HAS SET THE PACE IN A PROCESS MOVING THE GOVERNMENT TOWARD ECONOMIC REFORMS THAT RELY MORE ON MARKET FORCES AND LESS ON CENTRAL PLANNING; IT HAS UPHELD THE RIGHT OF PRIVATE FARMERS TO HOLD AND USE LAND,

AND WORKED SUCCESSFULLY FOR GOVERNMENT CONCESSIONS IN THIS CRUCIAL SECTOR.

5. THESE GAINS HAVE NOT ALL BEEN CONSOLIDATED. SOLIDARITY KNOWS THAT THE GAINS WRUNG FROM PREVIOUS GOVERNMENTS IN 1956 AND 1970 WERE ERODED AND FINALLY LOST. THIS TIME UNION LEADERS ARE INSISTING ON STATUTORY CHANGES THAT WILL EMBOD THE ACHIEVEMENTS OF THE PAST SIXTEEN MONTHS IN LAW. THEY WILL USE THE NEGOTIATING PROCESS ON ECONOMIC REFORM TO TRY TO BRING ABOUT FAR-REACHING CHANGES IN POLAND'S COMMAND ECONOMY. THE PUBLIC MANIFESTATIONS OF THE POLITICAL POWER STRUGGLE ARE STRIKES AND STRIKE WARNING ACTIONS ON THE SOLIDARITY SIDE, WHILE THE GOVERNMENT CALLS FOR AN END TO STRIKES AND ACCUSES SOLIDARITY OF TRYING TO RUIN THE ECONOMY AS A WAY OF GAINING POLITICAL POWER.

6. THE STATE STILL HOLDS A MONOPOLY ON BOTH POLICE POWER AND MILITARY POWER. THE MODERATE POLITICAL LEADERS NOW IN CHARGE HAVE RESISTED THE USE OF THIS POWER, BUT THEY WALK A THIN LINE. ON THE DOMESTIC SIDE THEY FACE THE CHALLENGE OF A NON-VIOLENT REVOLUTION REACHING FOR ECONOMIC AND POLITICAL POWER. EXTERNALLY, THERE ARE THE OTHER WARSAW PACT COUNTRIES WHO SEE THE POLISH REVOLUTION AS A THREAT TO THEIR STABILITY. THESE GOVERNMENTS WANT TO SEE SOLIDARITY SUPPRESSED EITHER BY THE POLISH GOVERNMENT OR, IF THAT IS NOT POSSIBLE, COMBINED WARSAW PACT FORCE. POLISH GOVERNMENT STATEMENTS AND ACTIONS ARE OFTEN PLAYED TO PLACATE THESE FORCES. THE MODERATE POLITICAL LEADERS NOW IN POWER IN POLAND ARE ATTEMPTING TO KEEP THE SITUATION IN POLISH HANDS. THEY HAVE A COMMON INTEREST WITH SOLIDARITY IN KEEPING THE RUSSIANS OUT.

7. OVER THE PAST SIXTEEN MONTHS THERE HAVE BEEN SEVERAL CHANGES IN THE REGIME LEADERSHIP IN RESPONSE TO INTERNAL AND EXTERNAL PRESSURE. RECENTLY THE COUNTRY'S LEADING MILITARY FIGURE, JARUZELSKI, HAS TAKEN OVER AS PARTY FIRST SECRETARY. HE SEEMS TO WISH TO CONTINUE THE MODERATE LINE OF NEGOTIATING SOLUTIONS WITH SOLIDARITY. WITH JARUZELSKI, HOWEVER, WE MAY BE AT THE END OF NATIONALLY KNOWN AND RESPECTED MODERATE LEADERSHIP.

8. SOLIDARITY, LIKEWISE, HAS BEEN IN THE PROCESS OF RESOLVING ITS LEADERSHIP QUESTIONS. ITS RECENT CONGRESS REAFFIRMED WALESIA AND PROVIDED HIM WITH A FIRMER BASE FOR NEGOTIATION WITH THE GOVERNMENT.

9. BECAUSE THE CONSOLIDATION OF THE POLISH EXPERIMENT IS A COMPLEX PROCESS INVOLVING A WEB OF SOCIAL, ECONOMIC, LEGISLATIVE AND ADMINISTRATIVE ACTIONS, IT WILL NOT BE ACHIEVED QUICKLY. WE ANTICIPATE CYCLICAL PERIODS OF NEGOTIATION AND POLITICAL TENSION. OFTEN, BUT NOT ALWAYS, LEADING TO SPECIFIC AGREEMENTS. THE NEXT SIX MONTHS WILL BE THE CRUCIAL PERIOD FOR THE REGIME AND SOLIDARITY TO MAKE AN EFFORT TO COMPLETE A KIND OF NEW SOCIAL AND ECONOMIC COMPACT WHICH WILL ESTABLISH AN ACCEPTABLE DEGREE OF SOCIAL HARMONY, RETURN LABOR TO INTENSIVE PRODUCTION AND GIVE POLAND THE CHANCE TO BEGIN REBUILDING ECONOMIC GROWTH AND POLITICAL STABILITY.

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S E C R E T SECTION 2 OF 3 WARSAW 10838

13. ANY OF THE ABOVE PRIVATE BANKING SCENARIOS PLAYS DIRECTLY TO SOVIET OBJECTIVES IN POLAND. THE SOVIETS FOR ECONOMIC AND POLITICAL REASONS DO NOT WANT A COMPLETE COLLAPSE OF THE POLISH ECONOMY. BUT A LOW LEVEL OF ECONOMIC ACTIVITY INCREASES THE PROBABILITY THAT THE MODERATES WILL FAIL AND THAT HARD LINE POLITICIANS WILL REGAIN CONTROL OVER THE REGIME. THE DISORDERS THAT WOULD PROBABLY ENSUE MIGHT LEAD TO SOVIET INTERVENTION. BLEEDING POLAND OF FOREIGN EXCHANGE IT NEEDS FOR ECONOMIC RECOVERY CONTRIBUTES TO PRODUCING AN ECONOMIC ENVIRONMENT IN WHICH SOVIET OBJECTIVES MIGHT BE ACHIEVED.

E. CREDITS SHOULD BE TARGETED TO EXPORT INDUSTRIES OR IMPORT SUBSTITUTION PRODUCTION.

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ACTION SS-25

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S E C R E T SECTION 3 OF 3 WARSAN 18838

EXDIS

STADIS////////////////////////////////

FOR ASSISTANT SECRETARY EAGLEBURGER FROM AMBASSADORS
MEISSNER AND MEEHANF. AGRICULTURAL CREDITS SHOULD BE TIED TO SPECIFIC
CONDITIONALITY IN AGRICULTURAL DEVELOPMENT POLICY. WE NEED
TO WORK WITH CANADA AND THE EC ON THIS ISSUE.G. NEW COMMERCIAL CREDITS SHOULD BE EXTENDED FOR TEN
YEARS TO RELIEVE THE POLES OF IMMEDIATE PAYMENT PROBLEMS WHICH
THEY CANNOT MEET. (IF WE CAN ARRANGE INITIAL FIVE YEARS OF
INTEREST PAYMENTS IN ZLOTYS FOR OUR OWN AID WE WILL HAVE A
GREATER IMPACT.)H. WE MUST DEVELOP A PROGRAM INTERNAL TO POLAND TO USE
EFFECTIVELY OUR ZLOTYS TO REINFORCE ECONOMIC REFORM IN THE
COUNTRY -- SPECIFICALLY WE WOULD RECOMMEND PROGRAMS TO SUP-
PORT PRIVATE AGRICULTURE.I. WE SHOULD CONTINUE TO RESCHEDULE OUR DEBT PAYMENTS
WITH THE POLES OVER THE NEXT FEW YEARS -- SIX MONTHS BY SIX
MONTHS IF NECESSARY -- TO ALLOW CHANGES TO REESTABLISH ECONOMIC
GROWTH AND BE repaid IN THE FUTURE, ANDJ. WE SHOULD PAY CLOSE ATTENTION TO COMPARABILITY IN
DEBT RESCHEDULING TO ASSURE REASONABLE BURDEN SHARING BETWEEN
CREDITOR GROUPS.

RECOMMENDATION

19. WE BELIEVE THE ISSUE OF EXPORT CREDITS FOR FY 1982
SHOULD BE DECIDED BY MID-NOVEMBER. WE FACE A CONFLUENCE OF
POLITICAL AND ECONOMIC FORCES, AND WE MUST DECIDE WHETHER WE
WISH TO INFLUENCE IT OR NOT. THIS IS A POLITICAL DECISION
ON ECONOMIC LEVERAGE. WE WOULD RECOMMEND THAT THE US SERI-
OUSLY CONSIDER SUCH AN EFFORT, END RECOMMENDATION.20. THE ABOVE IS AN EMBASSY PARTIAL REWRITE OF A MESSAGE
DRAFTED BY AMBASSADOR MEISSNER DURING HIS RECENT VISITS TO
WARSAN. THE FOLLOWING PARAGRAPHS ARE MY OWN ADDITIONS.21. IN A MESSAGE WRITTEN LAST AUGUST (WARSAN 7940) I SUMMED
UP MY VIEWS ON AID TO POLAND. I NOTED THAT SINCE ARRIVAL AT
POST I HAD TENDED TO SHADE OFF ON THE CAUTIOUS SIDE ON LARGE-
SCALE AID, WHILE SUPPORTING SPECIFIC LIMITED PROJECTS. I
SAID IN EFFECT THAT THE ECONOMICS OF AID WERE DEBATABLE BUT
THE POLITICS WERE CLEAR. MY CONCLUSION WAS THAT IT WAS
WORTHWHILE FOR US TO PUT DOWN SUBSTANTIAL MONEY BECAUSE
POLAND WAS THE BEST BET WE WERE LIKELY TO HAVE IN EASTERN
EUROPE FOR A LONG TIME.2. IT WILL BE CLEAR FROM THE JOINT RECOMMENDATION MADE
WITH AMBASSADOR MEISSNER THAT I AM CONFIRMED IN MY PREVIOUS
VIEW. A MAJOR FACTOR IN MY APPROACH NOW, HOWEVER, IS THAT I
THINK THE POLISH POLITICAL CONTEXT IS MORE FAVORABLE THAT IT
HAS BEEN AT ANY TIME SINCE THE POLISH EVENTS BEGAN IN THE
SUMMER OF 1980. I DOUBT THAT BEFORE NOW THE POLES HAD SORTED
THEMSELVES OUT SUFFICIENTLY TO BE ABLE TO HANDLE A COMPRE-
HENSIVE AID OFFER EFFECTIVELY. NOW I THINK THERE IS A CHANCETHAT THEY WILL BE ABLE TO DO SO REASONABLY SOON. IN OTHER
WORDS, THE TIMING IS RIGHT NOW -- AND THE URGENCY IS CLEARLY
GREAT.23. THERE IS ADDITIONAL EXTERNAL TIMING FACTOR THAT IS
WORTH CONSIDERING. WE ARE RIGHTLY CONCERNED ABOUT POLITICAL
MOVEMENT IN WESTERN EUROPE THAT THE RUSSIANS ARE ANXIOUS TO
USE AGAINST OUR INTERESTS. BREZHNEV'S VISIT TO THE FEDERAL
REPUBLIC LATER THIS MONTH WILL ATTEMPT TO GIVE IMPETUS TO
SUCH TRENDS AS PART OF A POLITICAL OFFENSIVE AIMED AT SETTING
US AND OUR ALLIES APART. THE WEAKNESS IN THIS OFFENSIVE IS
POLAND. IT MIGHT BE ARGUED THAT THE RUSSIAN EFFORT DIRECTED
TOWARD WESTERN EUROPE IS AN ATTEMPT TO DIVERT FROM THE POLISH
REALITIES. IF THIS IS SO, ACTION BY US ON POLAND MIGHT BE
AN IMPORTANT PART OF A COUNTER-STRATEGY.24. I DO NOT BELIEVE WE HAVE ANY RESPONSIBILITY FOR OR
INTEREST IN BAILING OUT COMMUNIST GOVERNMENTS IN DISTRESS.
THE AID SCHEME ENVISAGED IN THIS MESSAGE FOR POLAND IS AIMED
AT MAXIMIZING RUSSIAN LOSSES AND U.S. GAINS IN THE POLISH
SITUATION. I RECOGNIZE THE FORCE OF THE-WORSE-THE-BETTER
ANALYSIS. THE QUESTION IS WHAT REALLY MAKES IT WORSE FOR THE
RUSSIANS? MY CONSIDERED JUDGEMENT IS THAT CONTINUATION OF
THE POLISH EXPERIMENT, WITHOUT INTERNAL CHAOS IN POLAND AND
WITHOUT RUSSIAN MILITARY INTERVENTION, IS THE OPTION THAT
REALLY PUTS MOSCOW ON THE RACK. THE LONGER THE EXPERIMENT
GOES ON, THE BROADER THE RANGE OF DEMOCRATIC INNOVATION, THE
MORE DIFFICULT THE OPTIONS WILL BECOME FOR THE RUSSIANS. IT
IS ON THIS BASIS THAT I BELIEVE WE SHOULD BE PREPARED TO
MOVE BOLDLY NOW IN THE AID FIELD. MEEHAN

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